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Questions for the Record

1) What role do economic inhibitors—such as excessive regulation and taxes—have in cities that consistently failed to exhibit economic growth despite decades of CDBG funding?

In many of our cities, high taxes and onerous regulations prevent urban residents from entering into business, constructing low-income housing, and improving their cities. To give one example, a 1997 study by economists Steven Craig and D. Andrew Austin¹ estimated that New York City's tax burden cost the city as many as one million lost jobs. At the time of the study, New Yorkers paid \$2,467 per person in city taxes (with state and federal they estimated the total at \$6,682 per capita.) The most taxed city in their study was Washington D.C. at \$4,405 per resident. But most of the revenue in New York City was not going to basic services, but to low-income assistance and debt service. While residents are taxed at excruciatingly high levels, they do not realize significant benefits. The ultimate result: residents leave, businesses leave, employment goes down, while basic services suffer. In 1965, New York City was home to half of Fortune 500 companies², today there are 37.

Regulations exact a similar burden. A recent article by Shika Dalmia contrasts Detroit's persistent malaise with Bangalore India's meteoric rise to global technology capital³. Among the barriers facing Detroit that Dalmia highlights:

- Detroit imposes licensing fees on 265 different types of businesses from day care centers to street vendors.
- A home-based business needs 70 or more building permits to get started.
- The taxi-industry is 'virtually non-existent' in Detroit. Restrictions make it impossible for new entrants. And if they can enter, they must pay \$10,000 to purchase a license.

And Detroit's taxation is also onerous: five percent on utilities, 2.5 percent on income, 1.25 percent on those who work in Detroit, and one percent on corporate income. On top of that Detroit charges tremendous taxes on sold property, leading some homeowners to abandon or even burn down their property rather than sell it.

The solution to these problems is often to offer targeted tax breaks to big companies, particular industries, or only a few neighborhoods within in a city. However, it is better to create a taxation structure that treats all residents and businesses equally. That is, rather than offer breaks to individual businesses, activities, or only certain residents, cities

¹ Steven G. Craig, and D. Andrew Austin, "New York's Million Missing Jobs," City Journal, Autumn 1997 <http://www.heartland.org/Article.cfm?artId=1226>.

² Steven Hayward, "Broken Cities: Liberalism's Urban Legacy," Policy Review, April 1998.

³ Shikha Dalmia, "What Detroit Can Learn from Bangalore," Reason Magazine, June 2006. <http://www.reason.com/0606/fe.sd.what.shtml>

should seek to unlock the hidden potential that it constrains with unfair and burdensome taxes and regulations. A general, fair system of taxation, minimal regulation, and well-defined and enforced laws, minimizing on crime and eliminating corruption, will encourage residents to start businesses, to buy and maintain homes, and to participate in the life and rebuilding of their communities.

a. Should Congress require communities to reform anti-growth regulations and tax burdens before they are eligible for federal grants—much like we require from foreign countries with some of our foreign aid programs?

Grant monies, such as those that CDBG provides can only address the consequences and not the causes of urban decay. If Congress continues to award such funds, grantee cities should also promise to remove the barriers that prevent economic growth: such as high taxation, and burdensome regulations.

2) How can HUD improve its data collection?

I am pleased to see HUD is attempting improvements of its IDIS data collection system. I believe it can do a few things to make it easier for the public and researchers to use it. Put the data in a form that permits transparency to the public and also analysis by researchers.

Transparency: One should be able to query in a public database, how funds were used specifically, on the level of individual grantee (after taking privacy concerns into account), name of project, and how funds were spent.

Analysis: One should be able to extract data in a form that allows statistical analysis and aggregation (such as Excel): over a number of years, describing how grants were used (business loans, home construction, community improvements, infrastructure), the amount, the city or region.

In other words, data should be specific enough to allow users to view how individual grants were spent. But such a system should also permit researchers to aggregate and code data into a meaningful format to permit statistical analysis.

3) In your opinion, what would you say Congress is trying to achieve with this program?

CDBG was created in response to the urban decay that plagued many U.S. cities in the late 1960s and early 1970s. It was believed infusions of federal dollars would help cities cope with the economic decline and social problems that were devastating urban areas. However, due to its broad mission, and the nature of the formula grant, over time, CDBG funds were awarded to a growing number of cities, and with a weakening ability to target based on need. But as funds drifted, so did the program's original mission. It is now a general source of extra revenue for all receive it. There is no evidence to support that CDBG has had the kind of dramatic, large-scale effect its creators imagined.

If the original intent of CDBG remains the same: the revitalization our most distressed urban areas, I believe Congress should review and adjust the current formula. Further, I believe Congress should reconsider, in the light of what we have learned about the key to unlocking economic prosperity, what outcome they are hoping to achieve with this program. A clearer, more precise mission will assist both the agency and the grantees in ensuring that funds are being put to their best possible use.